



**INDIANA**  
STATE DEPARTMENT OF  
**AGRICULTURE**

# Indiana Farmers Benefit Under the New Plan

## Agenda

- Outline the impact to farmers
- Review key elements of the plan
- Review assessed value formula for farmland

*Note: The data contained in this presentation is estimated based on average changes outlined in HB1001. Final property tax bills will vary by district and other circumstances.*

# **Indiana Farmers Benefit Under the New Plan**

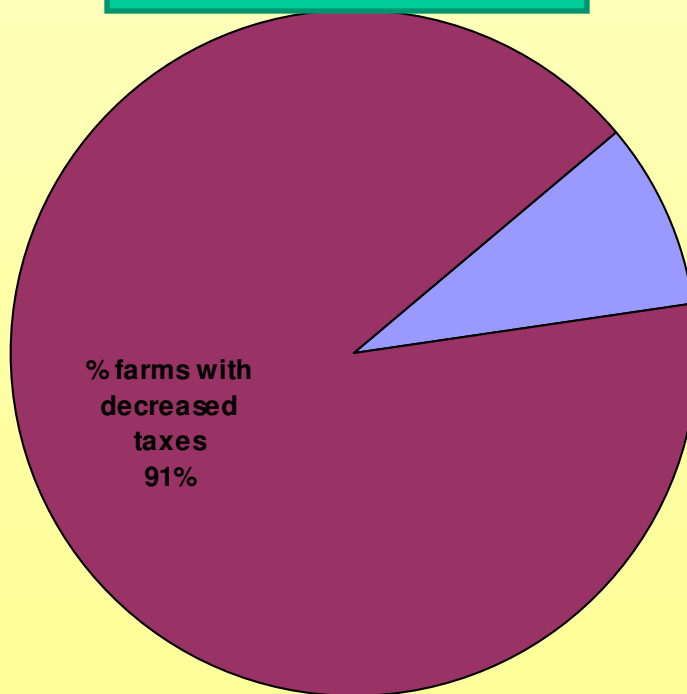
## **Key Points for Farmers**

- Property tax bills will go down for over 90% of farmers
- Caps and local spending controls provide future certainty
- The farm land assessment mechanism is unchanged from 2005

# Tax Bills Go Down For Over 90% of Farmers

## *Estimated 2009 Farm Property Taxes*

**With HB1001**

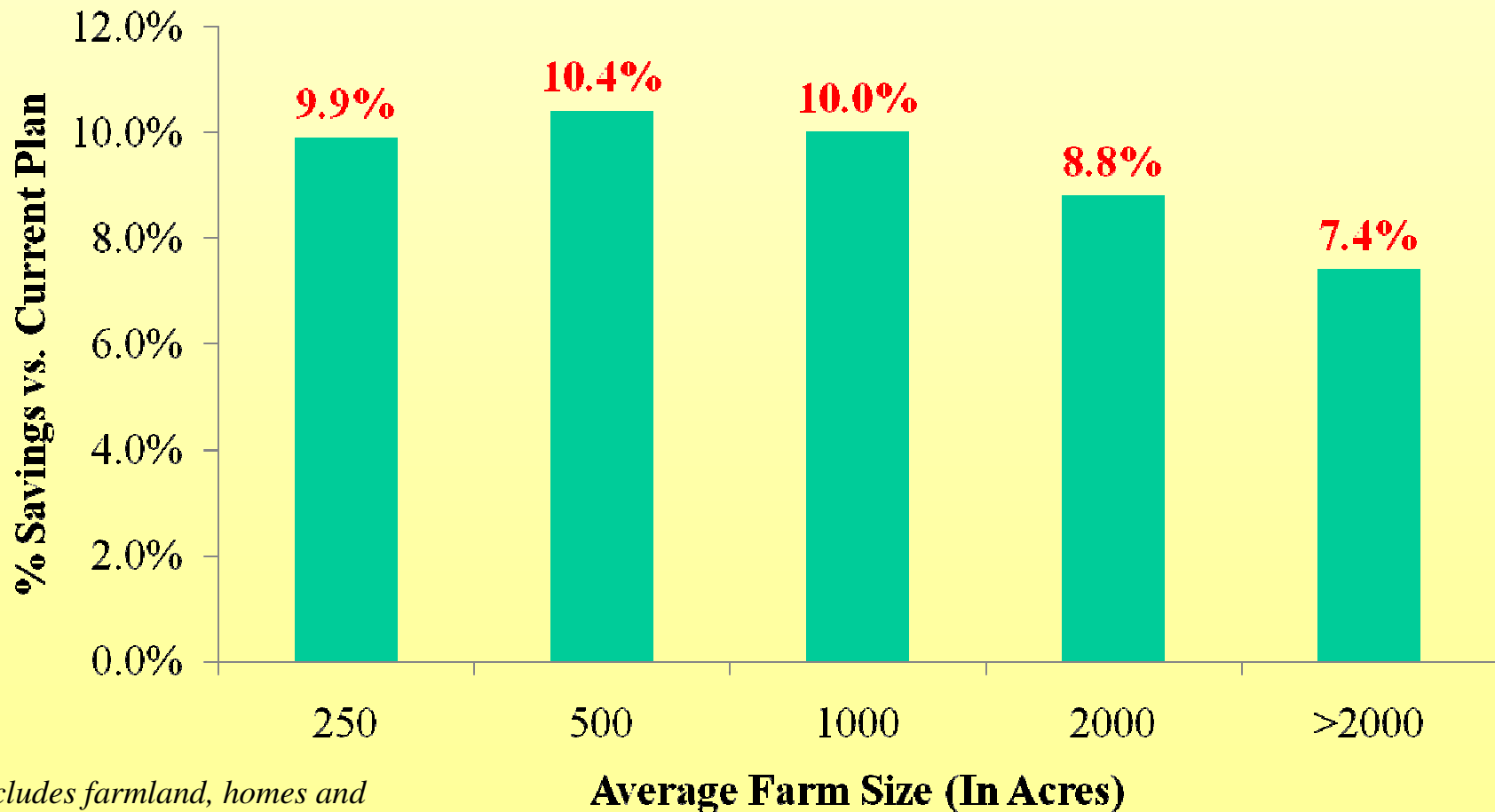


*Includes farmland, homes and personal property with farmland assessed value increasing to \$1140*

*The 10% of farm ground less likely to benefit tends to be in urban tax districts.*

## All Farm Sizes Benefit

### Estimated Average Savings by Farm Size



*Includes farmland, homes and  
personal property with farmland  
assessed value increasing to \$1140*

# **Key Elements Driving Tax Savings:**

- **Shift in funding from property tax to state**
- **Spending controls on local spending**
- **Long-Term Caps**

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# Shift to State Budget

- **State will assume about \$3 billion of costs that were previously on local property tax rolls:**
  - School operating costs
  - Child welfare levies
  - Costs of juvenile incarceration in state facilities
  - State fair and forestry levies
  - Health care for the indigent
  - Pre-school special education levies
  - Costs of police and fire pensions
- **Because this is a complete shift, there is no chance that these expenses will “creep” back to property tax payers!**

# Shift to State Budget

- **The shift totals over \$3 billion and will be funded by:**

Fund	Estimated Amount (\$MM)
1% Sales Tax Increase	\$ 928
Wagering Proceeds	\$ 108
PTRC Redeployment	\$2,028
<b>Total</b>	<b>\$3,064</b>

- **None of the new funding impacts farm operations:**
  - Farmers are still sales tax exempt
  - PTRC was already funded by the state budget

# **Local Spending Controls Prevent Runaway Growth**

**Limits on local government spending were approved:**

- Referenda required for new school and local government capital projects.
- Eliminates loopholes on levy appeals that previously enabled local governments to spend more than budgeted
- County Council oversight of non-elected board budgets

# Long-Term Caps Provide Certainty

- **New Plan caps property taxes as a % of assessed value at:**
  - Homestead 1%
  - Farmland & Rental 2%
  - Business/Other 3%
- **Caps provide:**
  - Certainty of maximum tax liability
  - Immediate savings for many
  - Note, many tax districts are already above the 2% cap for farmland

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# Farmland Assessment

- HB1001 Impact – *Nothing has changed* to the system widely accepted in 2005
- A \$1 increase in farmland assessed value does not equal a \$1 increase in farm property taxes.
- Today we will review:
  - History of current assessment mechanism
  - Formula to calculate assessment
  - Example of the current impact

# Farmland Assessment History

- 1989 to 2002...farm land assessment fixed at \$495 per acre
- 1995...court mandated general reassessment of real property
- 1995-2002...market based assessment developed
  - Requires value in-USE vs. value-exchange
  - Updated annually
  - Widely supported by leading ag groups
- 2005...SEA 327 passed
  - Fixed assessed value for farm land at \$880 for 2005 and 2006
  - Required a 6 year average market value in-use for 2007 and forward
- 2008...HB1001 passed
  - **NO CHANGES**

# Farmland Assessment Formula

- Two basic approaches:

Indiana Utilizes



Approach	Market-Value In EXCHANGE	Market-Value In USE
Key principles	<ul style="list-style-type: none"> <li>Valued based on market value if property sold</li> </ul>	<ul style="list-style-type: none"> <li><b>Valued based on income generated in use of property</b></li> </ul>
Current Avg.Value / Acre	\$3,900	<b>\$1,200</b>
Assessment Mechanism	<ul style="list-style-type: none"> <li>Market assessment, like homes</li> </ul>	<ul style="list-style-type: none"> <li><b>Based on Net Income</b></li> </ul>

- Indiana practices Market Value In Use thus reducing assessment by 70%.

# Farmland Assessment Formula

- Market-value in-use formula is as follows:

**Table 2-18. Agricultural Land market value in use**

**Source: Real Property Assessment Guidelines for 2002-Version A, Book 1, Chapter 2, pg. 100**

<u>NET INCOMES</u>				<u>MARKET VALUE IN USE</u>		
Year	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2000	101	60	9.57%	1,055	627	841
2001	102	61	8.01%	1,273	762	1,017
2002	105	20	7.02%	1,496	285	890
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	60	7.22%	1,524	831	1,177

**Average  
Market Value in Use**

**\$1,200**

- DLGF updates annually

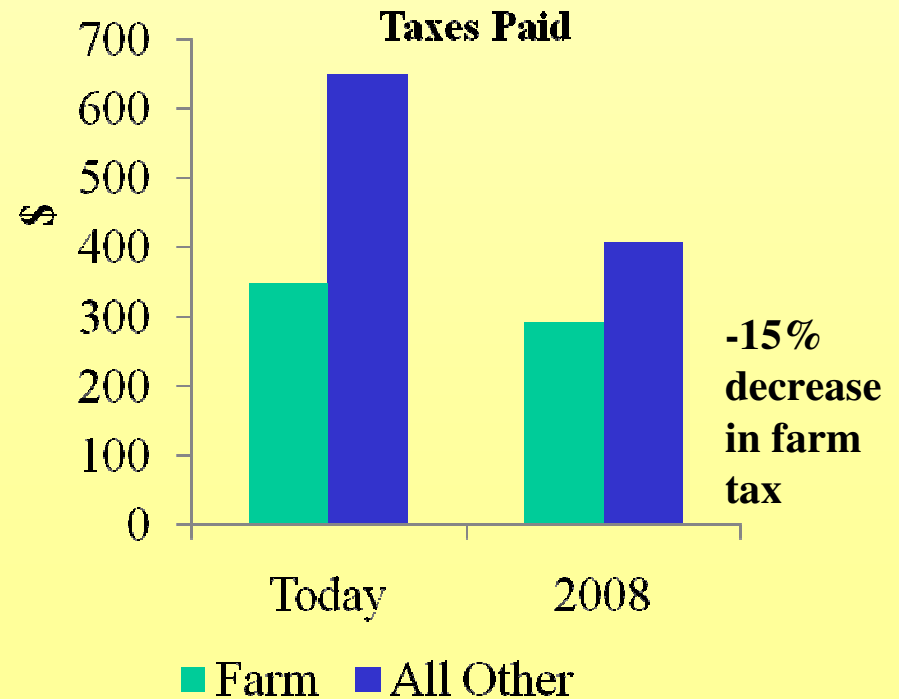
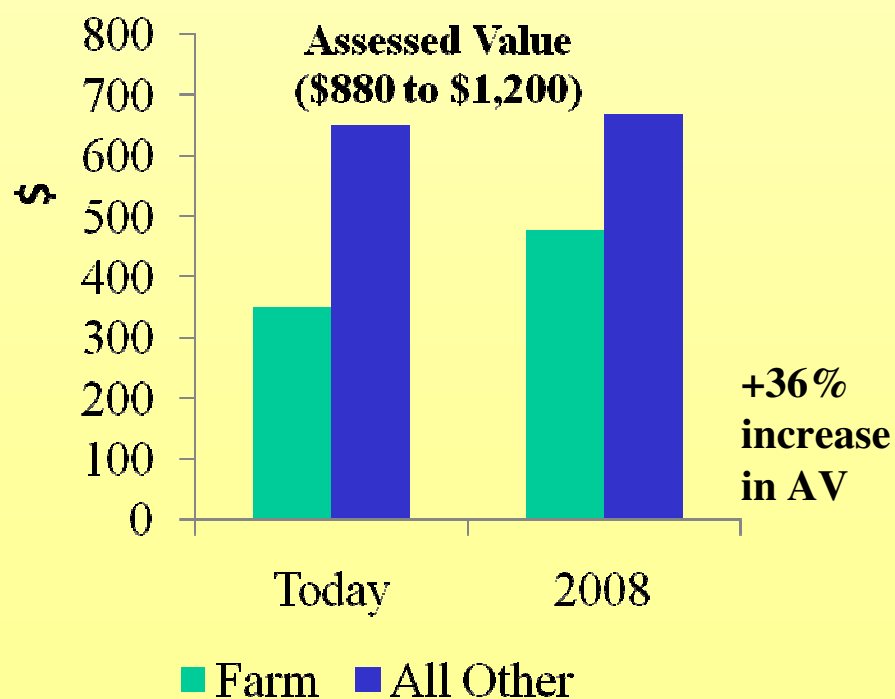
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# Farmland Assessment Formula

- The following are included in net operating income:
  - *Note: Key data is from USDA-NASS or Purdue University*
  - Input costs for things like fertilizer, chemicals, seed, etc.
  - Cash-rent paid to a landlord
  - PROPERTY TAXES!
- So, assessments only go up if net operating income goes up
  - i.e. Farmers' assessments change based on what they make

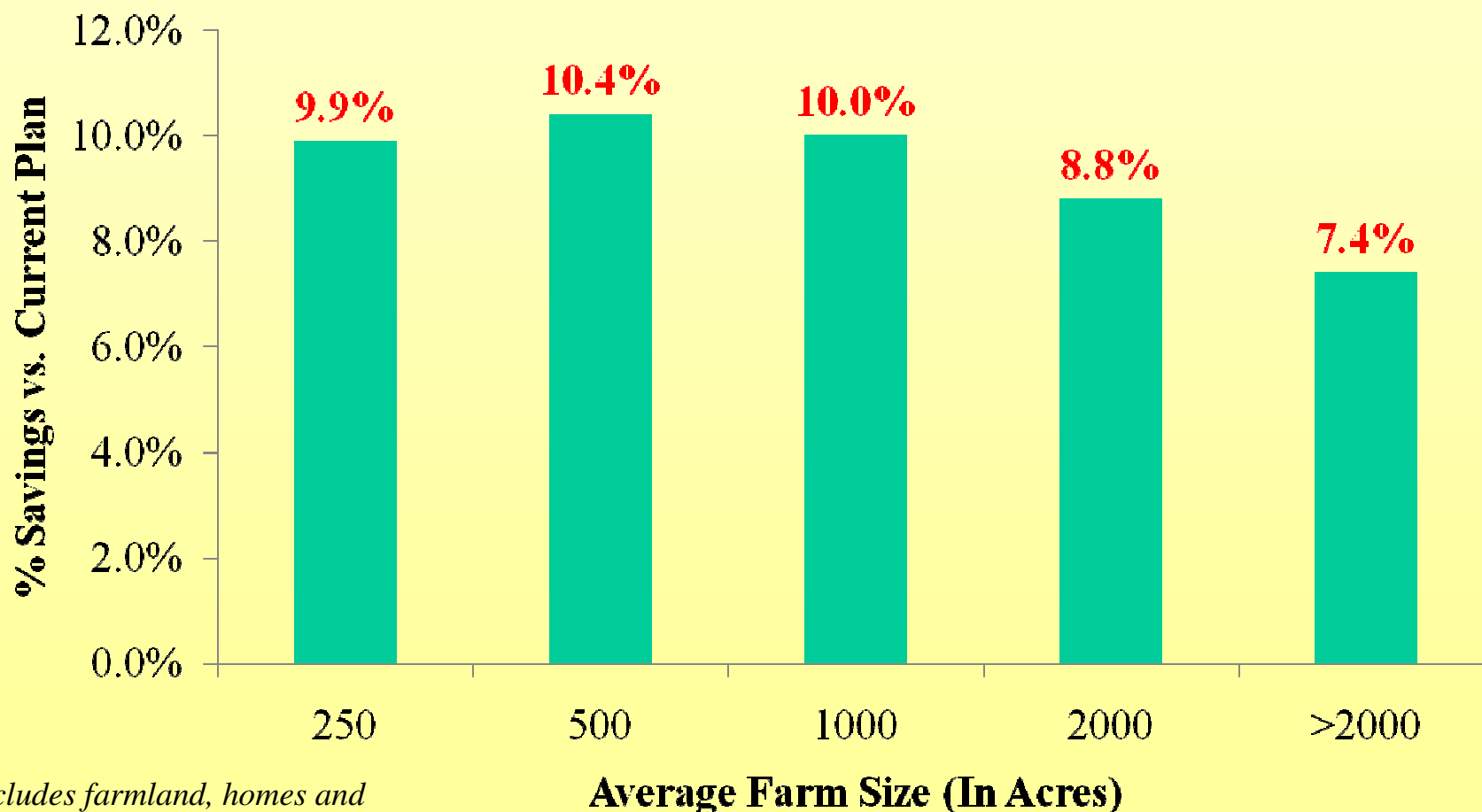
## Impact of Higher Farmland Assessment

- Higher assessment does not drive 1 for 1 increase in property taxes.
  - The following is a hypothetical example based on an avg. county and HB1001.



## Net...All Farm Sizes Benefit

### Estimated Average Savings by Farm Size



*Includes farmland, homes and personal property with farmland assessed value increasing to \$1140*